

# Mellanox Delivers Record Fourth Quarter and Annual 2018 Results, Exceeded \$1 Billion in Annual Revenue in 2018

## Achieved Annual Revenue Growth of 26% While Maintaining Flat Operating Expenses Year-Over-Year

Mellanox® Technologies, Ltd., a leading supplier of high-performance, end-to-end interconnect solutions for data center servers and storage systems, today announced preliminary financial results for its fourth quarter and fiscal year 2018.

"Mellanox had an outstanding 2018, delivering 26% annual revenue growth and achieving \$1.09 billion in revenue for the first time in our history. We leveraged top line growth and strong expense discipline to accelerate profitability. We expect to carry this momentum into 2019 and deliver another year of healthy, double-digit revenue growth to drive operating margins even higher," said Eyal Waldman, President and CEO of Mellanox Technologies.

"We achieved record quarterly revenue in our Ethernet switch business, capitalizing on design wins for our high-performance, feature-rich solutions, which support continued growth in 2019. We maintained our leadership in 25 gigabit and above Ethernet adapters and continue to benefit from the multi-year transition to higher speeds. Revenue for our 100 gigabit Ethernet adapters in 2018 was approximately 2.5 times that of 2017, an indication that the transition to 100 gigabit technology has begun, which will drive the next leg of growth. We are also gaining traction in a new growth vector for the next generation of intelligent interconnect with our BlueField SmartNICs and Storage Controllers.

"We grew our InfiniBand business 8 percent year-over-year and see strong demand for our leading performance HDR 200 Gigabit per second InfiniBand solutions for high-performance computing, artificial intelligence, big data, cloud, storage, and additional applications. Our HDR InfiniBand solutions have begun to ramp with a healthy backlog for Q1 and beyond. We achieved record Q4 and 2018 revenue with our LinkX cables and transceivers and expect to continue seeing healthy growth of our LinkX product line in 2019. We continue to invest in research and development to maintain our leadership across all product lines to fuel our growth in 2019 and beyond." Mr. Waldman concluded.

### Fourth Quarter 2018 - Financial Results Summary

- Revenue of \$290.1 million in the fourth quarter, an increase of 22.1 percent, compared to \$237.6 million in the fourth quarter of 2017.
- GAAP gross margins of 65.4 percent in the fourth quarter, compared to 64.1 percent in the fourth quarter of 2017.
- Non-GAAP gross margins of 69.0 percent in the fourth quarter, compared to 68.8 percent in the fourth quarter of 2017.
- GAAP operating income of \$44.0 million in the fourth quarter, compared to an operating loss of \$6.7 million in the fourth quarter of 2017.
- Non-GAAP operating income of \$78.7 million in the fourth quarter, or 27.1 percent of revenue, compared to \$38.0 million, or 16.0 percent of revenue in the fourth quarter of 2017.
- GAAP net income of \$42.8 million in the fourth quarter, compared to a net loss of \$2.6 million in the fourth quarter of 2017.
- Non-GAAP net income of \$77.1 million in the fourth quarter, compared to \$42.9 million in the fourth quarter of 2017.
- GAAP net income per diluted share of \$0.78 in the fourth quarter, compared to a net loss per diluted share of \$0.05 in the fourth quarter of 2017.
- Non-GAAP net income per diluted share of \$1.42 in the fourth quarter, compared to \$0.82 in the fourth quarter of 2017.
- Cash provided by operating activities was \$96.4 million during the fourth quarter of 2018, compared to \$66.9 million in the fourth quarter of 2017.
- Cash and investments totaled \$438.5 million at December 31, 2018, compared to \$273.8 million at December 31, 2017.

### Fiscal Year 2018 - Financial Highlights

- Revenue of \$1,088.7 million in 2018, an increase of 26.0 percent, compared to \$863.9 million in 2017.
- GAAP operating expense of \$588.1 million in 2018, compared to \$580.5 million in 2017.
- Non-GAAP operating expense of \$483.0 million in 2018, a decrease of 1 percent, compared to \$489.3 million in 2017.
- GAAP operating income of \$112.1 million in 2018, compared to operating loss of \$17.1 million in 2017.
- Non-GAAP operating income of \$270.2 million in 2018, or 24.8 percent of revenue, compared to \$118.7 million, or 13.7 percent of revenue in 2017.
- 2018 GAAP benefit from taxes on income of \$22.0 million, mainly due to the reversal of a valuation allowance related to deferred tax assets.
- GAAP net income of \$134.3 million in 2018, compared to a net loss of \$19.4 million in 2017.

- Non-GAAP net income of \$266.5 million, compared to \$116.6 million in 2017.
- GAAP net income per diluted share of \$2.46, compared to a net loss per diluted share of \$0.39 in 2017.
- Non-GAAP net income per diluted share of \$5.01, compared to \$2.28 in 2017.
- Cash provided by operating activities during fiscal year 2018 was \$264.9 million, compared to \$161.3 million during fiscal year 2017.

### **First Quarter 2019 Outlook**

We currently project:

- Quarterly revenue of \$295 million to \$305 million
- Non-GAAP gross margins of 68.0% to 69.0%
- Non-GAAP operating expenses of \$123 million to \$125 million
- Non-GAAP diluted share count of 54.5 million to 55.0 million

### **Recent Mellanox Press Release Highlights**

- January 22, 2019 - CSC, the Finnish IT Center for Science, and the Finnish Meteorological Institute Select 200 Gigabit HDR InfiniBand to Accelerate Multi-Phase Supercomputer Program
- January 7, 2019 - Mellanox 200 Gigabit HDR InfiniBand to Accelerate a World-Leading Supercomputer at the High-Performance Computing Center of the University of Stuttgart (HLRS)
- December 5, 2018 - Mellanox Ethernet Adapter Facilitates High Performance Network Solutions at Alibaba
- November 19, 2018 LINE Corporation Collaborates with Mellanox and Cumulus Networks to Power Advanced Messaging Platform
- November 13, 2018 - Mellanox Technologies Receives Nine HPCwire Readers' and Editors' Choice Awards at the Supercomputing Conference 2018
- November 13, 2018 - Mellanox and Los Alamos National Laboratory Join Forces to Develop Ultra-Large-Scale Mission-Centric Computing Infrastructure
- November 12, 2018 - Mellanox InfiniBand and Ethernet Solutions Accelerate the Majority of TOP500 Platforms on the November TOP500 Supercomputers List
- November 12, 2018 - Mellanox HDR InfiniBand Solutions Accelerate New Supercomputer for Advanced Research Computing at the University of Michigan
- October 25, 2018 - Mellanox Ships More Than 2.1 Million Ethernet Adapters in the First Three Quarters of 2018

### **Conference Call**

Mellanox will hold its fourth quarter 2018 financial results conference call today, at 2:00 p.m. Pacific Time (5:00 p.m. Eastern Time), to discuss the company's financial results. To listen to the call, dial +1-877-876-9176, or for investors outside the U.S., +1-785-424-1667, approximately 10 minutes prior to the start time. The Mellanox financial results conference call will be available via live webcast on the investor relations section of the Mellanox website at: <http://ir.mellanox.com>. A replay of the webcast will also be available on the Mellanox website after the call.

Note: See attached download for complete financial results.

### **About Mellanox**

Mellanox Technologies is a leading supplier of end-to-end Ethernet and InfiniBand intelligent interconnect solutions and services for servers, storage, and hyper-converged infrastructure. Mellanox's intelligent interconnect solutions increase data center efficiency by providing the highest throughput and lowest latency, delivering data faster to applications and unlocking system performance. Mellanox offers a choice of high-performance solutions: network and multicore processors, network adapters, switches, cable, software and silicon, that accelerate application runtime and maximize business results for a wide range of markets including high performance computing, enterprise data centers, Web 2.0, cloud, storage, network security, telecom and financial services.

Mellanox has achieved and maintained the highest ISS Quality Score possible beginning in May of 2017 and through the date of this release, January 30, 2019.

### **GAAP to Non-GAAP Reconciliation**

To supplement our consolidated financial statements presented in accordance with generally accepted accounting principles (GAAP), Mellanox uses non-GAAP measures of net income which are adjusted from results based on GAAP to exclude share-based compensation expense, amortization expense of acquired intangible assets, settlement costs, acquisition and other charges, restructuring and impairment charges, and income tax effects and adjustments. Settlement costs represent the charges related to the settlement of a contingent royalty obligation. Acquisition and other charges include expenses related to acquisitions of other companies and expenses related to the proxy contest. Restructuring and impairment charges include impairment charges related to our investment in privately-held companies, as well as costs that are the result of restructuring, consisting of employee termination and severance costs, facilities related costs, contract cancellation charges, and

impairment of long-lived assets. The purpose of income tax effects and adjustments is to exclude tax consequences associated with the above excluded expense items, as well as the non-cash impact on the tax provision pertaining to changes in deferred tax assets associated with carryforward losses of group entities subject to tax holiday in Israel. The company believes the non-GAAP results provide useful information to both management and investors, as these non-GAAP results exclude expenses that are not indicative of our core operating results. Management believes it is useful to exclude share-based compensation expense, amortization expense of acquired intangible assets, settlement costs, acquisition and other charges, restructuring and impairment charges, and income tax effects and adjustments because it enhances investors' ability to understand our business from the same perspective as management, which believes that such items are not directly attributable to nor reflect the underlying performance of the company's business operations. Further, management believes certain non-cash charges such as share-based compensation, amortization of acquired intangible assets, impairment charges, changes related to recognition of deferred taxes and the net impact on the company's tax provision for non-GAAP adjustments do not reflect the cash operating results of the business. These measures should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for or superior to GAAP results. These non-GAAP measures may be different than the non-GAAP measures used by other companies. A reconciliation of GAAP to non-GAAP condensed consolidated statements of operations is also presented in the financial statements portion of this release and is posted under the "Investor Relations" section on our website. The company has not reconciled its non-GAAP gross margins or non-GAAP operating expenses to GAAP gross margins or GAAP operating expenses, respectively, in the outlook section of this press release, because it does not provide an outlook for GAAP gross margins or GAAP operating expenses due to uncertainty and variability of acquired intangibles, acquisition and other charges, and restructuring charges, which are reconciling items between non-GAAP gross margins and non-GAAP operating expenses, and GAAP gross margins and GAAP operating expenses, respectively. The company has not reconciled its non-GAAP diluted share count to GAAP diluted share count in this press release because it does not provide an outlook for GAAP diluted share count due to the uncertainty in its GAAP net income (loss) due to variability of GAAP gross margins and operating expenses described above. Because such items cannot be reasonably predicted and could have a significant impact on the calculation of GAAP gross margins, GAAP operating expenses and GAAP diluted share count, a reconciliation of our outlook of these non-GAAP financial measures to the corresponding GAAP measures is not available without unreasonable effort.

#### **Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995**

All statements included or incorporated by reference in this release, other than statements or characterizations of historical fact, are forward-looking statements, including the outlook for the three months ending March 31, 2019, statements related to trends in the market for our solutions and services, opportunities for our company in 2019 and beyond, and future product capabilities. These forward-looking statements are based on our current expectations, estimates and projections about our industry and business, management's beliefs and certain assumptions made by us, all of which are subject to change. 7 Forward-looking statements can often be identified by words such as "projects," "anticipates," "expects," "intends," "plans," "predicts," "believes," "seeks," "estimates," "may," "will," "should," "would," "could," "potential," "continue," "ongoing," similar expressions and variations or negatives of these words. These forward-looking statements are not guarantees of future results and are subject to risks, uncertainties and assumptions that could cause our actual results to differ materially and adversely from those expressed in any forward-looking statement. The risks and uncertainties that could cause our results to differ materially from those expressed or implied by such forward-looking statements include the continued expansion of our product line, customer base and the total available market of our products, the continued growth in demand for our products, the continued, increased demand for industry standards-based technology, our ability to react to trends and challenges in our business and the markets in which we operate, our ability to anticipate market needs or develop new or enhanced products to meet those needs, the adoption rate of our products, our ability to establish and maintain successful relationships with our OEM partners, our ability to effectively compete in our industry, fluctuations in demand, sales cycles and prices for our products and services, our success converting design wins to revenue-generating product shipments, the continued launch and volume ramp of large customer sales opportunities, our ability to protect our intellectual property rights, our ability to successfully acquire businesses and technologies and to successfully integrate and operate these acquired businesses, our success in realizing the anticipated benefits of mergers and acquisitions, and our ability to obtain debt at competitive rates or in sufficient amounts in order to fund our contractual commitments. Furthermore, the majority of our quarterly revenue are derived from customer orders received and fulfilled in the same quarterly period. We have limited visibility into actual end-user demand as such demand impacts us and our OEM customer inventory balances in any given quarter. Consequently, this introduces risk and uncertainty into our revenue and production forecasts and business planning and could negatively impact our financial results. In addition, current uncertainty in the global economic environment poses a risk to the overall economy as businesses may defer purchases in response to tighter credit conditions, changing overall demand for our products, and negative financial news. Consequently, our results could differ materially from our prior results due to these general economic and market conditions, political events and other risks and uncertainties described more fully in our documents filed with or furnished to the Securities and Exchange Commission.

More information about the risks, uncertainties and assumptions that may impact our business is set forth in our annual report on Form 10-K filed with the SEC on February 16, 2018. All forward-looking statements in this press release, including the outlook for the three months ending March 31, 2019, are based on information available to us as of the date hereof, and we assume no obligation to update these forward-looking statements. Amounts reported in this release are preliminary and subject to finalization prior to the filing of our next Annual Report on Form 10-K.

Mellanox is a registered trademark of Mellanox Technologies, Ltd. All other trademarks are property of their respective owners.

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